

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES**

Agenda Item Summary Sheet

Committee: Finance, Facilities and Technology **Date of Meeting:** July 16, 2008

Agenda Item: Tuition Study Including the Price of Attendance

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| <input type="checkbox"/> Proposed
Policy Change | <input type="checkbox"/> Approvals
Required by
Policy | <input type="checkbox"/> Other
Approvals | <input type="checkbox"/> Monitoring |
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| <input checked="" type="checkbox"/> Information | | | |

Cite policy requirement, or explain why item is on the Board agenda: The purpose of this report is to solicit comments from trustees concerning several central policy and philosophical issues in order to best inform the final report of the tuition policy study.

Scheduled Presenter(s): Laura M. King, Vice Chancellor – Chief Financial Officer

Outline of Key Points/Policy Issues: The tuition study will address, at a minimum;

- the current tuition policy,
- gross/net tuition and fee comparisons at a regional and national level and by type of learner, program of study and institution,
- dependency on tuition revenue,
- the role of financial aid in the price of attendance, and
- total spending per student with comparisons at a regional and national level.

Background: The Board of Trustees has identified four priority efforts for action in FY2008-2009. One of the priority efforts is titled “Economic Model” and is focused on the price of attendance and the cost to educate students. This special project has been incorporated into a larger study concerning tuition policies. The Finance Division is in the process of completing the tuition study and will share the results in draft form with the Board of Trustees in September, 2008.

**BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES**

INFORMATION ITEM
Tuition Study Including the Price of Attendance

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- total spending per student with comparisons at a regional and national level.

The Finance Division is in the process of completing the tuition study and will share the results in draft form with the Board of Trustees in September, 2008. The purpose of this report is to solicit comments from trustees concerning several central policy and philosophical issues in order to best inform the final report’s drafting.

The Association of Governing Boards of Universities and Colleges released a report titled *Setting Tuition* in 2001. The report states that:

“deciding how much to charge for the institution’s “product” ultimately is the responsibility of the board. Few other board decisions affect so many, are watched so closely, and are so vulnerable to comment and criticism.”

Tuition setting is a business decision – as much art as science and dependent on many variables. Some of the variables include the level of state resources, dependency on tuition revenue, academic program mix, labor contract settlements, other inflationary pressure, level of services provided to students, enrollment outlook, and availability of financial aid/subsidy.

The report goes on to state that Boards are responsible for being stewards of the public trust and for ensuring that their colleges and universities have sufficient resources to carry out their missions. Balancing these competing priorities is difficult. Setting tuition is a complicated task that must account for philosophical and financial variables. Setting tuition is central to nearly every aspect of a college or university, including its mission,

the size and quality of the student body and faculty, perceived quality, affordability, and accessibility. Tuition setting is a judgment call but has a great impact on a college or university's fiscal health and vitality.

Board's tuition philosophy/strategy

In 1998 the Board and Chancellor made a commitment to the principle of "decentralization with accountability." This principle is laced throughout Board policies and practices. In the matter of tuition, the Board allowed institutions the flexibility to determine their tuition pricing structure tailored to their mission, geographic location, individual market and competitive circumstances and submit annual rate change recommendations to the Board for approval. The tuition strategy supported the strategic plan goals of greater institutional autonomy, flexibility within an overall framework, and a focus on outcomes and results with presidential accountability. From 1998-2008, the System's annual tuition rate changes ranged from a low of 2 percent during fiscal year 1998 to a high of 14 percent during fiscal years 2004 and 2005 as colleges and universities balanced their budgets to local conditions.

Although the Board continues to operate within this tuition strategy, a greater emphasis is being placed on affordability and accessibility. In recent years, the Board has determined parameters for tuition increases expressed as a maximum percentage increase. This shift has slowed down the dispersion of rates across schools and locked in some of the revenue disparities present at the time of the merger.

Due to the range of tuition dependency between the colleges and universities, setting a maximum percentage increase results in a differing level of tuition support on a per student basis. A four percent increase can yield a range of revenue changes on a per student basis from \$141 to \$176 at the colleges and \$200 to \$237 at the universities.

Role of tuition in concert with state appropriation

The System's colleges and universities have two primary sources of revenue for instructional and related support activities: state appropriation and tuition. State support for higher education has been declining since the late 1990's. The experience has been that when state appropriation grows, tuition remains more stable. Historically, during recessions, when incomes are declining or flat, unemployment is on the rise, and state resources are declining, there is a greater increase in tuition.

Minnesota Statute 135A.01 states that it is the intent of the legislature to provide at least 67 percent of the combined revenue from tuition, the university fee at the University of Minnesota, and state general fund appropriations to public postsecondary institutions. At the System level, the state support in fiscal year 2007 was 50.5 percent and tuition 49.5 percent. The reliance on appropriation varies greatly by college and university from 42

percent to 67 percent. Conversely, reliance on tuition ranges from 33 percent to 58 percent.

The revenue composition of the colleges and universities was substantially established at the time of the merger. The Board inherited the funding policies of the state that had built the separate community, technical and university systems. The state's policies impacted both state support and tuition reliance. Institutions with a greater reliance on appropriation are technical and comprehensive colleges located in greater Minnesota. Institutions with a greater reliance on tuition are predominately large stand-alone community and comprehensive colleges (with a predominance of non-technical programs) and the state universities. This condition has existed for over twenty years.

In fiscal year 2008, approximately \$530 million of appropriation was distributed to colleges and universities through the base allocation framework. The framework values the autonomy of the colleges and universities in that each institution keeps the tuition it generates and there are few restrictions on the academic programs offered within the approved missions. The framework recognizes enrollment, academic program mix, efficiency, and productivity, to name a few. It distributes/redistributes available state resources equitably; in other words, some institutions gain and some lose in any given year. For example, in fiscal year 2008 an additional 3.5 percent (\$17.3 million) of state appropriation was distributed to colleges and universities through the base allocation framework. The range of increase from the prior year allocation at any one college or university varied from (0.7) percent to 21.7 percent.

The System's funding policy recognizes the interaction of state appropriation and tuition revenues. In recent years, the downward pressure on tuition rates has collided with the re-allocation of state appropriation occurring by policy through the allocation framework. Consequently, some institutions that are more reliant on appropriation support are seeing that decline while tuition increases are also held down. Generally, institutions that experienced an appropriation increase at a rate lower than the System average of 3.5 percent in fiscal year 2009 were also more reliant on appropriation.

Institutional Autonomy

As a part of the Board and Chancellor's commitment to "decentralization with accountability," presidents are responsible for overall cost management at their institution. Colleges and universities make spending decisions on how to allocate the available financial resources. They have flexibility in determining academic program mix and type and level of services offered to students. In addition, presidents are committed to providing resources in support of the goals of the Board, Chancellor, and within their own institution. The flexibility in determining academic program mix and type and level of services offered results in different cost structures by institution. A university offering many services and amenities would have different costs from those that primarily focus on teaching. The costs of residential universities differ from those of commuter colleges.

The costs of offering equipment-intensive technical programs differ from liberal arts programs.

Most of the colleges and universities are operating with limited financial resources due to a reduction or small increases in appropriation and tuition increase limitations set by the Board. At the same time, they are experiencing pressure on budgets as a result of recent competitive labor contract settlements that will impact the next biennium. Colleges and universities manage financial challenges by reducing cost growth, reallocating resources from low to higher priority items, downsizing services, or finding new sources of revenue.

Policy/Philosophy Issues

Staff is interested in engaging the Board of Trustees in a conversation surrounding the policy issues below to assist in framing a set of recommendations within the tuition study:

1. **Mission-market conflict.** The colleges are open access, serving all students while universities have more selective access. Nationally, the annual resident tuition at the System's colleges is 3rd among community colleges and 15th for the universities among comprehensive four-year colleges and universities. The current tuition policy allows for numerous methods for assessing tuition with different underlying pricing assumptions.
 - a. **Cost basis** - per credit, banding, and contracted post-secondary enrollment option. This method is intended to be a "cost recovery" method.
 - b. **Market basis** - program/course differential, on-line, customized/contract training, hour-based instruction, and continuing education. This method could be either "cost recovery" or "profit generating." Many colleges and some universities have intentionally structured rates to provide excess revenue used to support other areas of the academic and student services programs.

These methods have developed over time in response to changes in the market place. The cost basis is used primarily for credit based instruction. The market basis is used for both credit and non-credit based instruction. There are some exceptions in both categories. Colleges and universities use different approaches when determining if a course is either cost basis or market basis for pricing purposes.

There are two questions for the Board's consideration prompted by this issue:

- What should be our objectives in the balance between maintaining low tuition versus tuition based on the market?

- What is the Board's interest in establishing standards for the types/forms of courses that can be charged as a cost basis or market basis tuition type?
- 2. Tuition dispersion-internal rate equity.** In fiscal year 2008, there was a difference between lowest to highest gross (sticker price) annual tuition among colleges of \$870 and among universities of \$920. The rate range is approximately 25 percent for the colleges and 18 percent for the universities. The tuition rate dispersion has occurred incrementally since merger. The Board's past commitment to delegated decisions was designed to allow for flexibility in the tuition pricing structure to accommodate mission, geographic location, individual market and competitive circumstances.

The System's colleges and universities have different cost structures due to program mix (technical/liberal arts, lab/lecture) and services offered to the students resulting in a need for differing level of financial resources.

Policy goals of current delegated environment:

- Acknowledgement of historical revenue mix – ten years ago in FY1998 the range of tuition dependency varied from a high of 44 percent to a low of 23 percent. The current variable increase policy acknowledges the varying degrees of tuition dependency already present in the colleges and universities.
- Enables sensitivity to local market conditions – some of our colleges and universities are in very competitive local markets. The ability to tailor tuition rates to the local market is very important to the competitive posture of these schools.

Policy goals of tighter internal rate equity:

- More uniform sticker price to the public and students.

Movement toward greater internal rate equity would require a policy target for the tuition/state appropriation relationship. Internal rate equity could also result in a change in how the state appropriation is distributed to colleges and universities and/or restructuring of institutions. After establishment of these two policy targets, options for narrowing tuition dispersion and achieving internal rate equity include:

- Freeze tuition at highest priced institutions, while allowing the lower priced institutions to catch up;
- Allow the lowest priced institutions to raise tuition significantly to bring them up to a minimum level; while the higher priced institutions continue to increase at a slower level;
- Cap tuition increases at a specified dollar amount (rather than a percentage); or

